

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**HB 904 - SB 1750**

March 24, 2011

**SUMMARY OF BILL:** Creates the "Tennessee Farm Winery Law" which authorizes a Tennessee winery retailer license for any retail food store operating in jurisdictions where the sale of beer is authorized. Defines "retail food store" as an establishment where food and food products, fresh produce, and uncooked, nonprocessed butchered meat are sold and intended primarily for off-premises consumption.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – \$819,000/One-Time/ABC Fund  
\$414,700/Recurring/ABC Fund  
\$295,800/Recurring/General Fund  
Increase State Expenditures – \$922,000/One-Time/ABC Fund  
\$1,293,300/Recurring/ABC Fund**

**Increase Local Revenue – \$5,024,900/Recurring/Permissive**

**Assumptions:**

- ABC will issue licenses for the sale of Tennessee winery products only to qualified retail food stores in jurisdictions where the sale of beer has been approved.
- There are approximately 7,000 qualifying food stores in the state of Tennessee. Approximately 52 percent of these stores are in localities that have authorized the sale of beer and 75 percent of stores in these localities will apply for the license resulting in 2,730 stores statewide authorized to sell wine ( $7,000 \times 52\% \times 75\% = 2,730$ ).
- Each license costs \$150 with a \$300 one-time application fee. This will result in a recurring increase in state revenue to the ABC Fund of \$409,500 ( $2,730 \times \$150$ ) and a one-time increase in state revenue to the ABC Fund of \$819,000 ( $2,730 \times \$300$ ).
- The ABC will require 19 additional agents to assist in regulating and investigating the new licensees; and 10 new administrative clerk positions to perform administrative functions necessary for issuing new licensees.
- Each agent would receive a salary of \$31,128 plus benefits of \$13,710 totaling \$851,922 ( $19 \text{ agents} \times \$44,838$ ) and \$5,000 for maintenance, travel, and hotels totaling \$95,000 ( $19 \times \$5,000$ ). The total recurring increase in expenditures to the State ABC Fund for these new positions is \$946,922 ( $\$851,922 + \$95,000$ ). The total one-time increase in expenditures to the State ABC Fund is \$912,000, which includes \$48,000 per agent for a car, camera, rifle, and vest ( $19 \text{ agents} \times \$48,000$ ).

- Each clerk would receive a salary of \$19,800 plus benefits of \$10,059 totaling \$298,590 (10 x \$29,859) and \$4,780 for computer access, and phones totaling \$47,800 (10 x \$4,780). The total recurring increase in expenditures to the State ABC Fund for these new positions is \$346,390 (\$298,590 + \$47,800). The total one-time increase in expenditures to the State ABC Fund is \$10,000 which includes \$1,000 per clerk for equipment (10 x \$1,000).
- The excise tax on wine, state sales tax, local sales tax, the enforcement tax on the sale of alcoholic beverages, and municipal inspection fees will be impacted by this bill.
- The provisions of the bill will result in an increase in all taxes and fees identified above; however, determining a precise estimate for such an increase is difficult due to a number of unknown factors. A conservative 33 percent increase in taxes and fees has been used for calculating the increase in revenues to state and local governments.
- According to the Department of Revenue (DOR), collections of excise tax under current law which are derived from the sale of Tennessee winery products are estimated to be approximately \$304,000 in FY09-10.
- The increase in state revenue from additional excise tax collections in jurisdictions approving the sale of wine in qualifying retail food stores is estimated to be \$75,240 per year (\$304,000 x 75% x 33%).
- Based on information provided by the DOR, additional collections of state sales tax derived from the sale of Tennessee wine are estimated to be \$668,298 in FY09-10. The increase to state sales tax revenue is estimated to be \$220,538 (\$668,298 x 33%).
- Based on information provided by the DOR, additional collections of local sales tax derived from the sale of Tennessee wine are estimated to be \$226,971. The increase to sales tax revenue is estimated to be \$74,900 (\$226,971 x 33%).
- Current law authorizes a \$0.15 per case enforcement tax upon the sale of alcoholic beverages sold at wholesale in Tennessee. FY09-10 collections attributable to Tennessee winery product sales are estimated to be approximately \$15,854 (105,696 cases x \$0.15) to the State ABC Fund. The recurring increase in state revenue associated with the enforcement tax is estimated to be \$5,232 (\$15,854 x 33%). This amount is credited to the ABC Fund rather than to the General Fund.
- Pursuant to Tenn. Code Ann. § 57-3-501, local governments are authorized to charge a permissive municipal inspection fee of a variable percentage (based on population) of the wholesale price of alcoholic beverages supplied by wholesalers. This fee is paid by licensed retailers within the municipality. Based upon a survey of local governments conducted by Fiscal Review Committee staff (responses from 82 out of 90 local governments that authorize the sale of alcoholic beverages), an amount estimated to exceed \$20,000,000 is collected by municipalities statewide each year.
- The increase to municipal inspection fee revenue is estimated to exceed \$4,950,000 per year (\$20,000,000 x 75% x 33%).
- Public Acts 2009, Public Chapter 348 authorized a wine manufacturer or supplier licensed in Tennessee or in any other state to ship up to nine liters of wine per month and up to 27 liters per year directly to Tennessee residents. Enactment of this legislation is anticipated to divert some wine sales from liquor stores and retail food stores. If Public Chapter 348 not been enacted, the estimated increase in sales from passage of this bill would have been greater.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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